

**REPORT OF THE AUDIT OF THE  
HENDERSON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Lee Watkins, Henderson County Judge/Executive

Members of the Henderson County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Kem, Duguid & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Henderson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE HENDERSON COUNTY FISCAL COURT**

**June 30, 2005**

Kem, Duguid & Associates, PSC has completed the audit of the Henderson County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Henderson County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$ 9,798,992 as of June 30, 2005. The fiscal court had unrestricted net assets of \$4,275,391 in its governmental activities as of June 30, 2005, with total net assets of \$9,778,299. In its enterprise fund, total net cash and cash equivalents were \$12,359 with total net assets of \$20,693. The fiscal court had total debt principal as of June 30, 2005 of \$16,394,904 with \$604,904 due within the next year.

#### **Deposits:**

The Fiscal Court's deposits were insured and collateralized by bank securities.



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KEM, DUGUID & ASSOCIATES, P.S.C.

*Certified Public Accountants*

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MICHAEL A. KEM

SANDRA D. DUGUID

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Lee Watkins, Henderson County Judge/Executive

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of Henderson County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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MEMBERS:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Sandy Lee Watkins, Henderson County Judge/Executive  
Members of the Henderson County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2005 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

*Kem, Duguid & Associates*

Kem, Duguid & Associates, PSC

Audit fieldwork completed -  
December 2, 2005

## HENDERSON COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

Sandy Lee Watkins	County Judge/Executive
Wanda Lee Branson	Magistrate
Charles G. Alexander	Magistrate
Donald Hugh McCormick	Magistrate
James C. Hicks	Magistrate
Herbert L. McKee	Magistrate

### **Other Elected Officials:**

Charles McCollum	County Attorney
Miles Hart	Jailer
Renny Mathews	County Clerk
Frances R London	Circuit Court Clerk
Dennis Clary	Sheriff
Steve Hargis	Property Valuation Administrator
Dr. Don Cantley	Coroner

### **Appointed Personnel:**

Rebecca I. Carroll	County Treasurer
Brenda Duncan-Rider	Finance Officer

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OFFICE OF THE COUNTY JUDGE/EXECUTIVE  
COURTHOUSE  
Henderson, Kentucky 42420

**SANDY L. WATKINS**  
HENDERSON COUNTY JUDGE/EXECUTIVE

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**Management's Discussion and Analysis**  
**June 30, 2005**

The financial management of Henderson County, Kentucky offers readers of Henderson County's financial statements this narrative overview and analysis of the financial activities of Henderson County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

**Financial Highlights.**

- Henderson County had net assets of \$9,798,992 as of June 30, 2005. The fiscal court had unrestricted net assets of \$4,275,391 in the governmental activities as of June 30, 2005, with total net assets of \$9,778,299. In its enterprise fund, cash and cash equivalents were \$12,359 with total assets of \$20,693. Total debt for governmental funds principal as of June 30, 2005 was \$16,394,904 with \$604,904 due within one year.
- The governmental funds' total net assets increased by \$871,026 from the prior year. This increase is primarily due to the purchase of vehicles and equipment and increased expenditures in infrastructure.
- At the close of the current fiscal year, Henderson County governmental funds reported current assets of \$4,590,925. Of this amount, \$4,511,011 is available for spending at the government's discretion (unreserved fund balance).
- Henderson County's total indebtedness at the close of the fiscal year June 30, 2005 was \$16,394,904, of that \$16,394,904 is long-term debt (due after 1 year) and \$604,904 is short-term debt (to be paid within 1 year). This is a reduction of the debt service payment for one year.

**Overview of the Financial Statements.**

This management discussion and analysis is intended to serve as an introduction to Henderson County's Basis financial statements. Henderson County's basis financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basis financial statements themselves.

**Henderson County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Overview of the Financial Statements (Continued)**

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Henderson County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Henderson County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Henderson County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Henderson County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, other transportation facilities and services, debt service, and capital projects. Henderson County has one business type activity-Jail Canteen Fund.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Henderson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of Henderson County can be divided into broad categories: *governmental funds and proprietary funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Henderson County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Governmental Funds (Continued)**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Henderson County maintains (10) ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Public Properties Corporation Debt Service

Non-major Funds:

- Local Government Economic Assistance Fund
- State Grant Fund
- Economic Development Fund
- Public Properties Corporation Capital Projects
- Capital Projects General Obligation
- Debt Service General Obligation

Henderson County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

**Proprietary Fund.** The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Jail Canteen Fund.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Henderson County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
**(Continued)**

**Government-wide Financial Analysis**

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1**  
**Henderson County's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
<b>Assets</b>						
Current and other assets	\$ 6,083,330	\$ 4,590,925	\$ 15,632	\$ 12,359	\$ 6,098,962	\$ 4,603,284
Capital assets	19,798,564	21,582,278	11,258	8,334	19,809,822	21,590,612
Total Assets	25,881,894	26,173,203	26,890	20,693	25,908,784	26,193,896
<b>Liabilities</b>						
Current and other liabilities	579,717	604,904			579,717	604,904
Long-term liabilities	16,394,904	15,790,000			16,394,904	15,790,000
Total Liabilities	16,974,621	16,394,904			16,974,621	16,394,904
<b>Net Assets</b>						
Invested in capital assets, net of related debt	2,823,943	5,187,374	11,258	8,334	2,835,201	5,195,708
Restricted	32,205	315,534			32,205	315,534
Unrestricted	6,051,125	4,275,391	15,632	12,359	6,066,757	4,287,750
Total Net Assets	\$ 8,907,273	\$ 9,778,299	\$ 26,890	\$ 20,693	\$ 8,934,163	\$ 9,798,992



**Henderson County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Government-wide Financial Analysis (Continued)**

**Table 2  
Henderson County's Comparison  
Of General Revenue By Source And  
Program Expenses By Function**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
<b>Revenue</b>						
General Revenue and Transfer	\$ 4,786,297	\$ 4,539,707	\$ 122	\$ 195	\$ 4,786,419	\$ 4,539,902
Charges for Services	2,738,501	4,146,302	252,532	290,819	2,991,033	4,437,121
Operating Grants and Contrib	5,125,838	3,877,130			5,125,838	3,877,130
Capital Grants and Contributi	704,076	1,717,242			704,076	1,717,242
<b>Total Revenue</b>	<b>13,354,712</b>	<b>14,280,381</b>	<b>252,654</b>	<b>291,014</b>	<b>13,607,366</b>	<b>14,571,395</b>
<b>Expenses</b>						
General Government	4,992,274	5,688,644			4,992,274	5,688,644
Protection to Persons and Pro	2,980,650	4,144,267			2,980,650	4,144,267
General Health and Sanitation	437,138	187,621			437,138	187,621
Social Services	272,144	252,170			272,144	252,170
Recreation and Culture	157,400	50,451			157,400	50,451
Roads	1,943,883	2,219,273			1,943,883	2,219,273
Bus Services	32,500	32,500			32,500	32,500
Debt Service	1,506,019	807,336			1,506,019	807,336
Capital Projects	810,916	27,093			810,916	27,093
Jail Canteen			249,650	297,211	249,650	297,211
<b>Total Expenses</b>	<b>\$13,132,924</b>	<b>\$13,409,355</b>	<b>\$ 249,650</b>	<b>\$ 297,211</b>	<b>\$13,382,574</b>	<b>\$13,706,566</b>

**Changes In Net Assets.**

*Governmental Activities.* Henderson County's net assets increased by \$871,026 in fiscal year 2005. The key element in that increase was the acquisition of new machinery equipment and vehicles and the reduction of debt service.

*Business Activities.* Henderson County's net assets decreased by \$6,197. The key element in that was the depreciation of machinery.

As noted earlier, Henderson County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Financial Analysis of the County's Funds**

*Governmental Fund Overview.* The focus of Henderson County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Henderson County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Financial Analysis of the County's Funds (Continued)**

As of the end of June 2005 fiscal year, the combined ending fund balances of County governmental funds were \$4,590,925. Approximately 98% (\$4,511,001) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance is reserved to indicate that it is not available for new spending or it is committed for the various encumbrances.

The General Fund is the chief operating fund of Henderson County. At the end of June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$3,960,331. The County received \$3,683,069 in real and personal property, motor vehicle, and other taxes for approximately 56% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 44% of revenues.

The Road Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ending June 30, 2005 totaled \$2,844,007.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. Transfers from other funds contributed \$899,200 to the jail operations.

The Local Government Economic Assistance Fund primary source of revenue comes from coal severance and mineral taxes. It had an ending balance of \$76,448.

The State Grant Fund is primarily made up of flow-through money for grants such as Juvenile Justice Grants were funding is from the state. The ending balance was \$17,566 of that amount \$9,781 was for grants that had not had fiscal court approval to be reimbursed yet.

The Economic Development Fund has not had much use in the past several years. Its ending balance was \$36 and the only activity was interest of \$81 for the year.

The Capital Projects General Obligation Fund had an ending balance of \$114,719. This is money that has not yet been spent upon the completion of the Judicial Center Project.

The Public Properties Corporation Debt Service Fund had an ending balance of \$1,762.

*Proprietary Funds Overview.* The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Henderson County's proprietary fund is the Jail Canteen Fund. The Jail Canteen Fund's total cash balance was \$12,359.

**General Fund Budgetary Highlights.**

Henderson County's General Fund budget was not amended during the fiscal year.

**Henderson County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)**

**Capital Assets and Debt Administration.**

*Capital Assets.* Henderson County's investment in capital assets for its government and business-type activities as of June 30, 2005, amount to \$21,590,612 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, construction in progress for park improvements, and old jail improvement. Henderson County has reported infrastructure assets per GASB 34 provisions.

Additional information of the County's capital assets can be found in Note 3 of this report.

**Table 3  
Henderson County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Infrastructure Assets	\$ 1,087,056	\$ 1,359,651	\$ -	\$ -	\$ 1,087,056	\$ 1,359,651
Land and Construction						
In Progress	1,106,543	518,212			1,106,543	518,212
Buildings	16,011,480	18,094,544			16,011,480	18,094,544
Vehicles and Equip.	1,593,485	1,609,871	11,258	8,334	1,604,743	1,618,205
Total Net Capital Assets	\$ 19,798,564	\$ 21,582,278	\$ 11,258	\$ 8,334	\$ 19,809,822	\$ 21,590,612

*Long-Term Debt.* At the end of 2005 fiscal year, Henderson County had total bonded debt outstanding of \$16,694,904 from General Obligation Bonds and lease principal payments. Additional information on the County's long-term debt can be found in Notes 5 and 6.

**Other Matters.** The following factors are expected to have a significant effect on the County's financial budget or results of operations and were taken into account in developing the 2006 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rising cost of benefits for our employees (health insurance and retirement) is growing faster than other areas of the budget.

**Requests For Information.**

This financial report is designed to provide a general overview of Henderson County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Henderson County Treasurer, 20 N. Main Street, Henderson, KY 42420.

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**HENDERSON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**HENDERSON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 4,590,925	\$ 12,359	\$ 4,603,284
Total Current Assets	<u>4,590,925</u>	<u>12,359</u>	<u>4,603,284</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	518,212		518,212
Buildings	18,094,544		18,094,544
Vehicles and Equipment	1,609,871	8,334	1,618,205
Infrastructure Assets - Net of Depreciation	<u>1,359,651</u>		<u>1,359,651</u>
Total Noncurrent Assets	<u>21,582,278</u>	<u>8,334</u>	<u>21,590,612</u>
Total Assets	<u>26,173,203</u>	<u>20,693</u>	<u>26,193,896</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	595,000		595,000
Financing Obligations Payable	9,904		9,904
Total Current Liabilities	<u>604,904</u>		<u>604,904</u>
Noncurrent Liabilities:			
Bonds Payable	<u>15,790,000</u>		<u>15,790,000</u>
Total Noncurrent Liabilities	<u>15,790,000</u>		<u>15,790,000</u>
Total Liabilities	<u>16,394,904</u>		<u>16,394,904</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	5,187,374	8,334	5,195,708
Restricted For:			
Capital Projects	313,772		313,772
Debt Service	1,762		1,762
Unrestricted	<u>4,275,391</u>	<u>12,359</u>	<u>4,287,750</u>
Total Net Assets	<u>\$ 9,778,299</u>	<u>\$ 20,693</u>	<u>\$ 9,798,992</u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**HENDERSON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,688,644	\$ 522,460	\$ 1,997,867	\$
Protection to Persons and Property	4,144,267	2,667,890	1,879,263	
General Health and Sanitation	187,621			
Social Services	252,170			
Recreation and Culture	50,451			
Roads	2,219,273	227,410		1,717,242
Bus Service	32,500			
Debt Service	807,336	728,542		
Capital Projects	27,093			
Total Governmental Activities	13,409,355	4,146,302	3,877,130	1,717,242
Business-type Activities:				
Jail Canteen	297,211	290,819		
Total Business-type Activities	297,211	290,819		
Total Primary Government	\$ 13,706,566	\$ 4,437,121	\$ 3,877,130	\$ 1,717,242

**General Revenues:**

Taxes:

    Real Property Taxes

    Personal Property Taxes

    Motor Vehicle Taxes

    Insurance Premium Taxes

    Other Taxes

Excess Fees

Legal Process

Miscellaneous Revenues

Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**HENDERSON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (3,168,317)	\$	\$ (3,168,317)
402,886		402,886
(187,621)		(187,621)
(252,170)		(252,170)
(50,451)		(50,451)
(274,621)		(274,621)
(32,500)		(32,500)
(78,794)		(78,794)
(27,093)		(27,093)
(3,668,681)		(3,668,681)
	(6,392)	(6,392)
	(6,392)	(6,392)
\$ (3,668,681)	\$ (6,392)	\$ (3,675,073)
1,462,650		1,462,650
231,133		231,133
214,682		214,682
1,343,458		1,343,458
434,216		434,216
63,915		63,915
545		545
660,082		660,082
129,026	195	129,221
4,539,707	195	4,539,902
871,026	(6,197)	864,829
8,907,273	26,890	8,934,163
\$ 9,778,299	\$ 20,693	\$ 9,798,992

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**HENDERSON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Debt Service Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,018,505	\$ 27,447	\$ 135,389	\$ 1,762
Total Assets	<u>4,018,505</u>	<u>27,447</u>	<u>135,389</u>	<u>1,762</u>
 <b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	22,174			
Cemetery Fund	36,000			
Unreserved:				
General Fund	3,960,331			
Special Revenue Funds		27,447	135,389	
Capital Projects Fund				
Debt Service Fund				1,762
Total Fund Balances	<u>\$ 4,018,505</u>	<u>\$ 27,447</u>	<u>\$ 135,389</u>	<u>\$ 1,762</u>

The accompanying notes are an integral part of the financial statements.

**HENDERSON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 407,822</u>	<u>\$ 4,590,925</u>
<u>407,822</u>	<u>4,590,925</u>
21,750	43,924
	36,000
	3,960,331
72,300	235,136
313,772	313,772
	<u>1,762</u>
<u>\$ 407,822</u>	<u>\$ 4,590,925</u>

**Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets:**

Total Fund Balances	\$ 4,590,925
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,473,750
Accumulated depreciation	(3,891,472)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(9,904)
General Obligation Bonds	<u>(16,385,000)</u>
Net Assets Of Governmental Activities	<u>\$ 9,778,299</u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**HENDERSON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Debt Service Fund</b>
<b>REVENUES</b>				
Taxes	\$ 3,683,069	\$	\$	\$
In Lieu Tax Payments	88,984			
Excess Fees	63,915			
Licenses and Permits	172,867			
Intergovernmental	2,360,820	1,921,964	3,447,423	728,542
Charges for Services	4,032	22,689	117,922	
Miscellaneous	133,022	188,425	371,446	
Interest	109,510	3,387	2,887	420
Total Revenues	<u>6,616,219</u>	<u>2,136,465</u>	<u>3,939,678</u>	<u>728,962</u>
<b>EXPENDITURES</b>				
General Government	3,756,846			
Protection to Persons and Property	530,184		3,209,143	
General Health and Sanitation				
Social Services				
Recreation and Culture	38,451			
Roads		2,449,941		
Bus Service				
Debt Service				1,092,366
Capital Projects	23,709			
Administration	802,189	394,066	533,211	
Total Expenditures	<u>5,151,379</u>	<u>2,844,007</u>	<u>3,742,354</u>	<u>1,092,366</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,464,840</u>	<u>(707,542)</u>	<u>197,324</u>	<u>(363,404)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	535,000	1,140,000	899,200	472,950
Transfers To Other Funds	(1,671,500)	(475,000)	(1,082,610)	(109,200)
Total Other Financing Sources (Uses)	<u>(1,136,500)</u>	<u>665,000</u>	<u>(183,410)</u>	<u>363,750</u>
Net Change in Fund Balances	328,340	(42,542)	13,914	346
Fund Balances - Beginning (Restated)	3,690,165	69,989	121,475	1,416
Fund Balances - Ending	<u>\$ 4,018,505</u>	<u>\$ 27,447</u>	<u>\$ 135,389</u>	<u>\$ 1,762</u>

The accompanying notes are an integral part of the financial statements.

**HENDERSON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 3,683,069
	88,984
	63,915
	172,867
964,961	9,423,710
	144,643
36,163	729,056
12,822	129,026
<u>1,013,946</u>	<u>14,435,270</u>
45,000	3,801,846
333,747	4,073,074
187,621	187,621
252,171	252,171
12,000	50,451
93,227	2,543,168
32,500	32,500
284,970	1,377,336
1,807,056	1,830,765
49,278	1,778,744
<u>3,097,570</u>	<u>15,927,676</u>
<u>(2,083,624)</u>	<u>(1,492,406)</u>
366,160	3,413,310
<u>(75,000)</u>	<u>(3,413,310)</u>
<u>291,160</u>	
(1,792,464)	(1,492,406)
2,200,286	6,083,331
<u>\$ 407,822</u>	<u>\$ 4,590,925</u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**HENDERSON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,492,406)
--	----------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Assets disposed of, Net Book Value	(160,155)
Capital Outlay	2,619,973
Depreciation Expense	(676,103)

Financing Obligation bond principal payments are expensed in the Governmental Funds as a use of current financial resources. However, these transactions have no effect on net assets.

Financing Obligations	9,717
Bond Payments	570,000

Change in Net Assets of Governmental Activities	\$ 871,026
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**HENDERSON COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**



**HENDERSON COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Jail Canteen Fund</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 12,359	
Total Current Assets	<u>12,359</u>	
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	27,000	
Less Accumulated Depreciation	<u>(18,666)</u>	
Total Noncurrent Assets	<u>8,334</u>	
Total Assets	<u>20,693</u>	
<b>Net Assets</b>		
Invested in Capital Assets,		
Net of Related Debt	8,334	
Unrestricted	<u>12,359</u>	
Total Net Assets	<u>\$ 20,693</u>	

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**HENDERSON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 290,819
Total Operating Revenues	<u>290,819</u>
<b>Operating Expenses</b>	
Cost of Sales	229,000
Educational and Recreational	54,942
Depreciation	2,924
Miscellaneous	10,345
Total Operating Expenses	<u>297,211</u>
Operating Income (Loss)	<u>(6,392)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	195
Inmate Pay From State	6,424
Inmate Refunds	(6,424)
Total Nonoperating Revenues (Expenses)	<u>195</u>
Change In Net Assets	(6,197)
Total Net Assets - Beginning	<u>26,890</u>
Total Net Assets - Ending	<u><u>\$ 20,693</u></u>

The accompanying notes are an integral part of the financial statements.

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**HENDERSON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**HENDERSON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 290,819
Cost of Sales	(229,000)
Educational and Recreational	(54,942)
Miscellaneous	(10,345)
Net Cash Used By	
Operating Activities	(3,468)
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay From State	6,424
Inmate Refunds on Accounts	(6,424)
Net Cash Provided By Noncapital Financing Activities	
<b>Cash Flows From Investing Activities</b>	
Interest Earned	195
Net Cash Provided By	
Investing Activities	195
Net Decrease in Cash and Cash Equivalents	(3,273)
Cash and Cash Equivalents - July 1, 2004	15,632
Cash and Cash Equivalents - June 30, 2005	\$ 12,359

The accompanying notes are an integral part of the financial statements.

**HENDERSON COUNTY**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>Business-Type Activities - Enterprise Fund</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	<b>Jail Canteen Fund</b>
Operating Loss	\$ (6,392)
Adjustments to Reconcile Operating Income To Net Cash Used By Operating Activities	
Depreciation Expense	<u>2,924</u>
Net Cash Provided By Operating Activities	<u><u>\$ (3,468)</u></u>

The accompanying notes are an integral part of the financial statements.

**HENDERSON COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**HENDERSON COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Jail Inmate Fund</b>	<b>Jail Escrow Fund</b>
	<hr/>	<hr/>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 48,217	\$ 11,406
	<hr/>	<hr/>
Total Assets	48,217	11,406
	<hr/>	<hr/>
<b>Liabilities</b>		
Amounts Held In Custody For Others	48,217	11,406
	<hr/>	<hr/>
Total Liabilities	48,217	11,406
	<hr/>	<hr/>
<b>Net Assets</b>		
Total Net Assets	\$	\$
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit (Continued)

Henderson County Public Properties Corporation

The Henderson County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements. All activities of the Public Properties Corporation are accounted for within a governmental fund.

**C. Henderson County Elected Officials Not Part Of Henderson County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henderson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Jail Fund** - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Public Properties Corporation Debt Service Fund** - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Public Properties Corporation, a blended component unit of the fiscal court.

**HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grant Fund, Economic Development Fund, Capital Projects General Obligation Bond Fund, General Obligation Bond Debt Service Fund, and Public Properties Corporation Capital Projects Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale of the 3<sup>rd</sup> Saturday in April following the delinquency date.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, and Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Capital Projects Fund:**

The Public Properties Corporation Projects Fund accounts for the activities of the Courts Facility Fund and Detention Center Facility Project. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities. The purpose of this fund is to account for funds received from bond issuances for the construction of a courts facility. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

**Debt Service Fund:**

The Public Properties Corporation Debt Service Fund accounts for the activities of the Debt Service Fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for the Local Development does not require the Fiscal Court to report or budget these funds.

**HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statement or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds, Jail Inmate Fund and the Jail Escrow Fund, are used to account for monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund- This fund accounts for monies received from inmates and held until inmate use.

Jail Escrow Fund- This fund accounts for monies received from former inmates that the jailer is unable to locate.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Capital Projects General Obligation Bond Fund, Public Properties Corporation Capital Projects Fund, Debt Service General Obligation Bond Fund, and Public Properties Corporations Debt Service Fund are not budgeted. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

**HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations and Joint Venture**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court: Tourism Commission and Regional Industrial Development. .

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Henderson County Fiscal Court:

**Henderson City-County Planning Commission**

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Henderson City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and City of Henderson to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Henderson are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2005, the Fiscal Court paid the Planning Commission \$ 205,029

**Tri-County Recycling**

The Henderson County Fiscal Court (Fiscal Court) has retained on ongoing financial responsibility for Tri-County Recycling. Tri-County Recycling is a joint venture between the Fiscal Court, Union County and Webster County, and the City of Henderson to provide recycling opportunities for each county. Each participant on a pro-rata basis pays the costs associated with Tri-County Recycling. During the fiscal year 2005, the Fiscal Court paid Tri-County Recycling \$15,982.

**West Kentucky Regional Industrial Authority**

The Henderson County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court and Union, Webster and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.



**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480 (1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**B. Investments**

As of June 30, 2005, the County had the following investments which are included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$3,616,000

**Interest Rate Risk.** The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

**Credit Risk.** KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency. Bankers' acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investments policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments (Continued)**

**Custodial Credit Risk-Investments**

For a deposit, custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. In general, certificates of deposit are not subject to investment credit risk.

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 518,212	\$	\$	\$ 518,212
Construction In Progress	588,331	1,803,672	(2,392,003)	
Total Capital Assets Not Being Depreciated	1,106,543	1,803,672	(2,392,003)	518,212
Capital Assets, Being Depreciated:				
Buildings	17,509,973	2,392,003		19,901,976
Vehicles and Equipment	3,369,001	438,117	(337,400)	3,469,718
Infrastructure	1,205,660	378,184		1,583,844
Total Capital Assets Being Depreciated	22,084,634	3,208,304	(337,400)	24,955,538
Less Accumulated Depreciation For:				
Buildings	1,498,493	308,939		1,807,432
Vehicles and Equipment	1,775,516	261,575	(177,244)	1,859,847
Infrastructure	118,604	105,589		224,193
Total Accumulated Depreciation	3,392,613	676,103	(177,244)	3,891,472
Total Capital Assets, Being Depreciated, Net	18,692,021	2,532,201	(160,156)	21,064,066
Governmental Activities Capital Assets, Net	\$ 19,798,564	\$ 4,335,873	\$ (2,552,159)	\$ 21,582,278

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 27,000	\$	\$	\$ 27,000
Total Capital Assets Being Depreciated	27,000			27,000
Less Accumulated Depreciation For:				
Vehicles and Equipment	15,742	2,924		18,666
Total Accumulated Depreciation	15,742	2,924		18,666
Total Capital Assets, Being Depreciated, Net	11,258	2,924		8,334
Business-Type Activities Capital Assets, Net	\$ 11,258	\$ 2,924	\$ -	\$ 8,334

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 179,346
Protection to Persons and Property	246,241
Roads, Including Depreciation of General Infrastructure Assets	<u>250,516</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 676,103</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 2,924</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 2,924</u>

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 4. Short-term Debt**

On July 1, 2004, Henderson County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$2,958,600, with principal being due on January 31, 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$ 9,086.

Changes in Short-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Kentucky Advance Revenue Program	\$	\$ 2,958,600	\$2,958,600	\$	\$
Governmental Activities Short-term Liabilities	\$ -	\$ 2,958,600	\$2,958,600	\$ -	\$ -

**Note 5. Long-term Debt**

**A. Detention Center**

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Center Project) Series 1995 on June 29, 1995, for the purpose of paying the cost of construction a new county detention facility and the cost of issuance of the bonds. The issue amount of the bonds was \$7,060,000.

The Henderson County Public Properties Corporation entered into a lease agreement with the County in which the County will lease from the Corporation the detention center facility in the amount of the aggregate of the interest on and the principal of the bonds, which are due and payable during the lease period, the cost of operation and maintenance of the project, the cost of insuring the project and the annual trustee fee. Rental payments are due semiannually on June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The interest rate on the bonds is 5.00%.

On August 1, 2003, the County of Henderson, Kentucky issued General Obligation Refunding and Improvement Bonds (Detention Center Project), Series 2003. The bonds were for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing on June 1, 2007 through June 1, 2015, inclusive (the "Series 1995 Bonds") and (2) paying the costs associated with the expansion, renovation, improvement and equipping of the Detention Facility. The outstanding balance as of June 30, 2005 of the unrefunded portion of the Series 1995 bonds is \$345,000.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 345,000	\$ 17,250
Totals	<u>\$ 345,000</u>	<u>\$ 17,250</u>

**B. Courts Facility**

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Court Facilities Project), Series 2000 on April 15, 2000 for the purpose of financing the cost of the acquisition, construction, and equipping of a court facility and the cost of issuance of the bonds. The issue amount of the bonds was \$9,975,000. The corporation and the county have entered into an annually renewable lease, dated April 15, 2000, wherein the county shall lease the courts facility from the corporation at an agreed rental which will be used to pay the principal and interest of the bonds.

The Henderson County Public Properties Corporation and the Henderson County Fiscal Court entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), in which AOC wishes to use the courts facility and will sublease from the corporation the courts facility, and make payments in the amount of the court's share of the interest on and the principal of the construction of the courts facility, but not to exceed 8% annually of capital costs. The lease is renewable April 15 of each even numbered year. Rental payments are due semiannually on January 20 and July 20 of each year. The interest rate on the bonds is 5.55%. The outstanding balance as of June 30, 2005 is \$8,970,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 245,000	\$ 482,144
2007	260,000	470,200
2008	270,000	457,460
2009	285,000	444,096
2010	300,000	429,846
2011-2015	1,735,000	1,902,662
2016-2020	2,250,000	1,386,924
2021-2025	2,935,000	698,052
2026	<u>690,000</u>	<u>38,628</u>
Totals	<u>\$ 8,970,000</u>	<u>\$ 6,310,012</u>

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. Detention Facility**

The County of Henderson, Kentucky issued bonds dated August 1, 2003, for the purpose of (1) refunding the outstanding Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Facility Project) Series 1995 maturing June 1, 2006 through June 1, 2016 (2) paying the costs associated with the expansion, renovation, improvement, and equipping of the Detention Facility located in Henderson, Kentucky. The issue amount of the bonds was \$7,080,000. Interest on the bonds will be payable semi-annually on June 1 and December 1 of each year commencing December 1, 2003. the bonds will mature on June 1 of each year thereafter. The outstanding balance as of June 30, 2005 was \$7,070,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 5,000	\$ 279,796
2007	260,000	279,671
2008	265,000	272,521
2009	315,000	264,571
2010	320,000	253,940
2011-2015	1,800,000	1,081,015
2016-2020	2,405,000	680,789
2021-2023	1,700,000	149,457
Totals	<u>\$ 7,070,000</u>	<u>\$ 3,261,760</u>

**D. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 16,955,000	\$	\$ 570,000	\$16,385,000	\$ 595,000
Financing Obligations (Note 6)	19,621		9,717	9,904	9,904
Governmental Activities					
Long-term Liabilities	<u>\$ 16,974,621</u>	<u>\$</u>	<u>\$ 579,717</u>	<u>\$16,394,904</u>	<u>\$ 604,904</u>

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 6. Financing Obligations**

On May 14, 2003, the Henderson County Fiscal Court borrowed \$29,254 from Kentucky Association of Counties Leasing Trust for a phone system. The interest rate was 1.98% with principal due annually and interest due monthly. The termination date is January 20, 2006. The principal balance at June 30, 2005 was \$9,904. Future debt requirements of the General Fund are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 9,904	\$ 117
Totals	<u>\$ 9,904</u>	<u>\$ 117</u>

**Note 7. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$148 in interest on financing obligations and \$807,188 in interest on bonds.

**Note 8. Commitments and Contingencies**

**A. Industrial Revenue Bonds**

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bonds issues.

**B. Ambulance Service Agreement**

In April 1983, the County of Henderson along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a countywide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this agreement for fiscal year ended June 30, 2005, were \$325,109.

**C. Recycling Interlocal Agreement**

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2005, were \$15,982.

**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 8. Commitments and Contingencies (Continued)**

**D. Solid Waste Transfer Station Interlocal Agreement**

The County of Henderson entered into an agreement with the City of Henderson to fund 50% of the construction and operation of a solid waste transfer station to be used in the collection and disposal of solid waste collected within the City and County. The agreement is for a five-year period, with the option to renew for four, consecutive, five-year terms unless either party provides written notice. The County's portion of operational costs for fiscal year ended June 30, 2005, was \$40,466. The County decided not to renew this agreement in fiscal year 2005.

**E. West Kentucky Regional Industrial Development Authority-Kenergy Loan Guarantee**

Henderson County in conjunction with Webster, Union, and McLean Counties issued an ordinance, which guarantees a portion of the \$450,000, zero-interest rural development loan made to Kenergy from the West Kentucky Regional Industrial Development Authority, to assist in promoting development of the 4Star Industrial Park. Henderson County authorized a guarantee of \$150,000. Webster County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

**Note 9. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 10. Deferred Compensation**

On March 1997, the Henderson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.



**HENDERSON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 10. Deferred Compensation (Continued)**

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 11. Insurance**

For the fiscal year ended June 30, 2005, Henderson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 12. Prior Period Adjustments**

The beginning net assets for governmental activities and the beginning fund balances for the general fund and road fund were restated for the following:

	<u>Net Assets</u>	<u>General Fund</u>	<u>Road Fund</u>
Beginning Balance	\$ 8,856,659	\$ 3,639,687	\$ 69,854
Plus:			
Certificate Of Deposit	50,000	50,000	
Voided Checks	<u>614</u>	<u>478</u>	<u>135</u>
Restated Beginning Balance	<u>\$ 8,907,273</u>	<u>\$ 3,690,165</u>	<u>\$ 69,989</u>

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**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 3,536,950	\$ 3,536,950	\$ 3,683,069	\$ 146,119
In Lieu Tax Payments	82,200	82,200	88,984	6,784
Excess Fees	80,639	80,639	63,915	(16,724)
Licenses and Permits	191,000	191,000	172,867	(18,133)
Intergovernmental Revenue	2,322,793	2,322,793	2,360,820	38,027
Charges for Services	2,016	2,016	4,032	2,016
Miscellaneous	53,100	53,050	133,022	79,972
Interest	100,000	100,000	109,510	9,510
Total Revenues	<u>6,368,698</u>	<u>6,368,648</u>	<u>6,616,219</u>	<u>247,571</u>
<b>EXPENDITURES</b>				
General Government	3,777,192	3,814,157	3,756,846	57,311
Protection to Persons and Property	461,030	536,397	530,184	6,213
Recreation and Culture	130,000	38,764	38,451	313
Capital Projects	540,000	460,299	23,709	436,590
Administration	745,906	804,511	802,189	2,322
Total Expenditures	<u>5,654,128</u>	<u>5,654,128</u>	<u>5,151,379</u>	<u>502,749</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>714,570</u>	<u>714,520</u>	<u>1,464,840</u>	<u>750,320</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			535,000	535,000
Transfers To Other Funds	<u>(1,874,026)</u>	<u>(1,874,026)</u>	<u>(1,671,500)</u>	<u>202,526</u>
Total Other Financing Sources (Uses)	<u>(1,874,026)</u>	<u>(1,874,026)</u>	<u>(1,136,500)</u>	<u>737,526</u>
Net Changes in Fund Balance	<u>(1,159,456)</u>	<u>(1,159,456)</u>	<u>328,340</u>	<u>1,487,796</u>
Fund Balance - Beginning (Restated)	<u>1,159,456</u>	<u>1,159,456</u>	<u>3,690,165</u>	<u>2,530,709</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,018,505</u>	<u>\$ 4,018,505</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,108,829	\$ 1,608,829	\$ 1,921,964	\$ 313,135
Charges for Services	13,000	13,000	22,689	9,689
Miscellaneous	3,400	3,400	188,425	185,025
Interest	1,500	1,500	3,387	1,887
Total Revenues	<u>1,126,729</u>	<u>1,626,729</u>	<u>2,136,465</u>	<u>509,736</u>
<b>EXPENDITURES</b>				
Roads	2,016,798	2,568,145	2,449,941	118,204
Administration	548,000	396,653	394,066	2,587
Total Expenditures	<u>2,564,798</u>	<u>2,964,798</u>	<u>2,844,007</u>	<u>120,791</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,438,069)</u>	<u>(1,338,069)</u>	<u>(707,542)</u>	<u>630,527</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to Other Funds			(475,000)	(475,000)
Transfers From Other Funds	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,140,000</u>	<u>(260,000)</u>
Total Other Financing Sources (Uses)	<u>1,400,000</u>	<u>1,400,000</u>	<u>665,000</u>	<u>(735,000)</u>
Net Changes in Fund Balance	(38,069)	61,931	(42,542)	(104,473)
Fund Balance - Beginning (Restated)	<u>38,069</u>	<u>38,069</u>	<u>69,989</u>	<u>31,920</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 27,447</u>	<u>\$ (72,553)</u>

**HENDERSON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 3,306,836	\$ 3,306,836	\$ 3,447,423	\$ 140,587
Charges for Services	134,000	134,000	117,922	(16,078)
Miscellaneous	316,000	316,000	371,446	55,446
Interest	525	525	2,887	2,362
Total Revenues	<u>3,757,361</u>	<u>3,757,361</u>	<u>3,939,678</u>	<u>182,317</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	3,158,468	3,214,040	3,209,143	4,897
Debt Service	623,200	613,410		613,410
Administration	479,750	533,968	533,211	757
Total Expenditures	<u>4,261,418</u>	<u>4,361,418</u>	<u>3,742,354</u>	<u>619,064</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(504,057)</u>	<u>(604,057)</u>	<u>197,324</u>	<u>801,381</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	432,511	432,511	899,200	466,689
Transfers To Other Funds			(1,082,610)	(1,082,610)
Total Other Financing Sources (Uses)	<u>432,511</u>	<u>432,511</u>	<u>(183,410)</u>	<u>(615,921)</u>
Net Changes in Fund Balance	(71,545)	(171,545)	13,914	185,460
Fund Balance - Beginning	<u>71,546</u>	<u>71,546</u>	<u>121,475</u>	<u>49,929</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (100,000)</u>	<u>\$ 135,389</u>	<u>\$ 235,389</u>

**HENDERSON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.



**HENDERSON COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**

**HENDERSON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>LGEA Fund</b>	<b>State Grant Fund</b>	<b>Economic Development Fund</b>	<b>Capital Projects General Obligation Bond Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 76,448	\$ 17,566	\$ 36	\$ 114,719
Total Assets	<u>76,448</u>	<u>17,566</u>	<u>36</u>	<u>114,719</u>
<b>FUND BALANCES</b>				
Reservd for:				
Encumbrances	21,750			
Unreserved:				
Special Revenue Fund	54,698	17,566	36	
Capital Projects Fund				114,719
Total Fund Balances	<u>\$ 76,448</u>	<u>\$ 17,566</u>	<u>\$ 36</u>	<u>\$ 114,719</u>

**HENDERSON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2005**  
**(Continued)**

<b>Public Properties Corporation Capital Projects Fund</b>	<b>Total Non-Major Governmental Funds</b>
<hr/>	<hr/>
\$ 199,053	\$ 407,822
<hr/>	<hr/>
199,053	407,822
<hr/>	<hr/>
	21,750
	72,300
199,053	313,772
<hr/>	<hr/>
\$ 199,053	\$ 407,822
<hr/>	<hr/>

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**HENDERSON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**HENDERSON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>LGEA Fund</b>	<b>State Grant Fund</b>	<b>Economic Development Fund</b>	<b>Capital Projects General Obligation Bond Fund</b>
<b>REVENUES</b>				
Intergovernmental	\$ 736,585	\$ 228,376	\$	\$
Miscellaneous	36,163			
Interest	1,428	136	81	7,824
Total Revenues	<u>774,176</u>	<u>228,512</u>	<u>81</u>	<u>7,824</u>
<b>EXPENDITURES</b>				
General Government	45,000			
Protection to Persons and Property	255,357	78,390		
General Health and Sanitation	187,621			
Social Services	101,236	150,935		
Recreation and Culture	12,000			
Roads	93,227			
Bus Service	32,500			
Debt Service				
Capital Projects				1,806,329
Administration	1,332		47,946	
Total Expenditures	<u>728,273</u>	<u>229,325</u>	<u>47,946</u>	<u>1,806,329</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>45,903</u>	<u>(813)</u>	<u>(47,865)</u>	<u>(1,798,505)</u>
<b>Other Financing Sources (Uses)</b>				
Transfer From Other Funds	75,000		41,500	
Transfer To Other Funds	(75,000)			
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u>41,500</u>	<u></u>
Net Change in Fund Balance	45,903	(813)	(6,365)	(1,798,505)
Fund Balances - Beginning	30,545	18,379	6,401	1,913,224
Fund Balances - Ending	<u>\$ 76,448</u>	<u>\$ 17,566</u>	<u>\$ 36</u>	<u>\$ 114,719</u>

**HENDERSON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Debt Service General Obligation Bond Fund</b>	<b>Public Properties Corporation Capital Projects Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$ 964,961
		36,163
225	3,128	12,822
225	3,128	1,013,946
		45,000
		333,747
		187,621
		252,171
		12,000
		93,227
		32,500
284,970		284,970
	727	1,807,056
		49,278
284,970	727	3,097,570
(284,745)	2,401	(2,083,624)
249,660		366,160
		(75,000)
249,660		291,160
(35,085)	2,401	(1,792,464)
35,085	196,652	2,200,286
\$ -	\$ 199,053	\$ 407,822

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



KEM, DUGUID & ASSOCIATES, P.S.C.

*Certified Public Accountants*

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P. O. BOX 562

HOPKINSVILLE, KENTUCKY 42240

(270) 866-6355 (270) 866-8662(FAX)

MICHAEL A. KEM

SANDRA D. DUGUID

The Honorable Sandy Lee Watkins, Henderson County Judge/Executive  
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 2, 2005. Henderson County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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MEMBERS:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Kem, Duguid & Associates*

Kem, Duguid & Associates, PSC

Audit fieldwork completed -  
December 2, 2005

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**HENDERSON COUNTY FISCAL COURT**

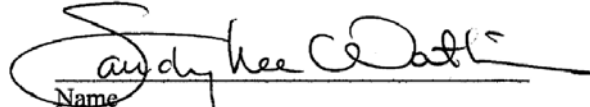
**For The Fiscal Year Ended  
June 30, 2005**



CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
HENDERSON COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2005

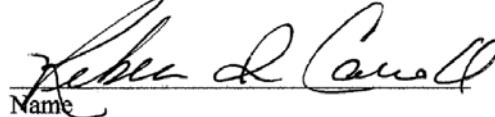
The Henderson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



\_\_\_\_\_

Name

County Judge/Executive



\_\_\_\_\_

Name

County Treasurer